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**BAYOU FUNDS CHIEFS PLEAD GUILTY IN FEDERAL COURT
TO DEFRAUDING INVESTORS IN \$450 MILLION HEDGE FUND COLLAPSE**

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, and MARK J. MERSHON, the Assistant Director in Charge of the FBI's New York Field Office, announced the guilty pleas today in White Plains federal court of SAMUEL ISRAEL, III and DANIEL E. MARINO to charges they defrauded investors in the recently collapsed Bayou group of hedge funds of more than \$450 million.

ISRAEL, the 46-year-old Chief Executive Officer of Bayou, admitted during his guilty plea that he conspired with MARINO, the 45-year-old Chief Financial Officer and Chief Operating Officer of Bayou, to defraud investors by creating fake financial statements that were distributed to investors. ISRAEL admitted that between 1996, when the funds were set up, and 2005, when the funds collapsed, the funds sustained consistent losses, but, at his direction, investors were regularly told that the funds were reaping substantial gains.

MARINO admitted during his plea that he and ISRAEL,

along with another former employee and co-founder of the Bayou Funds, hatched the scheme after the funds began sustaining losses. At that time, the three agreed that MARINO, a Certified Public Accountant, would form a sham certified public accounting firm named Richmond-Fairfield Associates, to sign off on the false financial statements showing fake profits that were used to lure future and current investors.

According to the felony Informations filed against the defendants today, from in or about July 1996 through in or about August 2005, MARINO, ISRAEL and another co-conspirator induced investors to contribute in excess of \$450 million to the Bayou hedge funds. The Bayou funds collapsed in August, 2005 after ISRAEL and MARINO attempted to recoup the mounting losses by investing Bayou funds in private placement transactions in the United States and abroad. The private placement transactions turned out to be frauds, according to publicly filed documents.

Specifically, according to a civil forfeiture action filed against Bayou entities and the remaining Bayou assets on September 1, 2005, by the United States Attorney's Office for the Southern District of New York, approximately \$100,010,673.68 in Bayou funds are the subject of an Arizona state court seizure order. These funds had been transferred by Bayou in connection with purportedly legitimate private placement transactions, or "programs," that would produce above-average rates of return - in

some cases, 100% per week. In connection with these "programs," Bayou transferred investor funds through various banks located in New York, London, Hamburg, back to London, and ultimately to an account in Flemington, New Jersey. According to the Complaint, these "programs" have some, if not all, of the characteristics of frauds known in the law enforcement community as "prime bank instrument" and "high yield program" frauds.

Both defendants waived indictment today and plead guilty to criminal Informations filed with the Court. The Information to which ISRAEL pleaded guilty contained conspiracy, mail fraud and investment advisor fraud charges. MARINO pleaded guilty to conspiracy, mail fraud, wire fraud, and investment advisor fraud. Both Informations contained criminal forfeiture allegations seeking the forfeiture of \$450 million.

Mr. GARCIA stated: "This case demonstrates that even experienced investors in hedge funds can be victims of unscrupulous operators. Our Office and our law enforcement partners will swiftly bring to bear all of our abilities to identify, investigate and prosecute such schemes and those who perpetuate them."

The investigation is continuing, said Mr. GARCIA.

As a result of his guilty plea, which was entered before United States Magistrate Judge GEORGE A. YANTHIS, ISRAEL faces a maximum term of 5 years in prison on the conspiracy charge; 5 years on the investment advisor fraud charge; and 20

years on the mail fraud charges.

MARINO, who also entered his plea before Judge YANTHIS, faces a maximum term of 5 years in prison on the conspiracy charge; 5 years on the investment advisor fraud charge; and 20 years each on the wire and mail fraud charges. Both defendants also face maximum fines on each count of \$250,000 or twice the gross gain or loss resulting from the crime; an order of restitution; and forfeiture of the proceeds of the fraudulent scheme.

MARINO and ISRAEL are scheduled to be sentenced by United States District Judge COLLEEN MCMAHON and United States District Judge Stephen C. Robinson, respectively, on January 9, 2006.

Mr. GARCIA praised the efforts of the Federal Bureau of Investigation, the United States Securities and Exchange Commission and the Commodity Futures Exchange Commission in this investigation.

Assistant United States Attorneys MARGERY B. FEINZIG, PERRY A. CARBONE and BARBARA A. WARD are in charge of the prosecution.

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